# ASSIGNMENT QUESTIONS: “Lyons Document Storage Co”

1. Lyons Document Storage’s controller, Eric Petro, told Rene that the bonds were issued in 1999 at a discount and that only approximately $9.1 million was received in cash. Explain what is meant by the terms “premium” or “discount” as they relate to bonds. Compute exactly how much the company received from its 8% bonds if the rate prevailing at the time of the original issue was 9% as indicated in Exhibit 2. Also, re-compute the amounts shown in the balance sheet at December 31, 2006, and December 31, 2007, for Long-Term Debt. What is the current market value of the bonds outstanding at the current effective interest rate of 6%?

2. If you were Rene Cook, would you recommend issuing $10 million, 6% bonds on January 2, 2009 and using the proceeds and other cash to refund the existing $10 million, 8% bonds? Will it cost more, in terms of principal and interest payments, to keep the existing bonds or to issue new ones at a lower rate? Be prepared to discuss the impact of a bond refunding on the following areas:

- cash flows
- current year’s earnings
- future years’ earnings

Note: For purposes of your computations, assume that refunding, if selected, occurs effective January 2, 2009, at a price of $1,154.15 per bond. Ignore the effects of income taxes. How many new $1,000 bonds will Lyons have to issue to refund the old 9% bonds?

3. Assume 6% bonds could be issued and the proceeds used to refund the existing bonds. Compare the effects of these transactions with those calculated in Question 2. If you were Rene Cook, what amount of new bonds would you recommend and why?